ALASKA STUDENT LOAN CORPORATION
(a Component Unit of the State of Alaska)

Unaudited Financial Statements

December 31, 2017 and 2016

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ALASKA STUDENT LOAN CORPORATION

(A Component Unit of the State of Alaska)

Unaudited Statements of Net Position

Six Months ended December 31, 2017 and 2016

(in thousands)

	2017	2016
Assets:		
Current assets:		
Cash (note 3)	$ 774	766
Other	337	144
Arbitrage rebate receivable (notes 2 and 7)	229	235
Interest receivable - investments	339	273
Interest receivable - loans	2,111	1,741
Loans receivable (note 4)	25,176	26,332
Restricted:		
Other	7	7
Investments (note 3)	4,911	6,014
Total current assets	33,884	35,512
Noncurrent assets:		
Interest receivable - loans, net (note 5)	2,276	2,808
Loans receivable, net (notes 4 and 5)	95,076	107,751
Investments (note 3)	75,111	64,411
Restricted:		
Cash (note 3)	175	80
Interest receivable - investments	4	2
Interest receivable - loans, net (note 5)	3,028	3,453
Loans receivable, net (notes 4 and 5)	90,037	112,153
Total noncurrent assets	265,707	290,658
Total assets	$ 299,591	326,170

See accompanying Notes to Financial Statements. (continued)

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Unaudited Statements of Net Position

Six Months ended December 31, 2017 and 2016

(in thousands)

	2017	2016
Liabilities and Net Position:		
Liabilities:		
Current:		
Payable from unrestricted assets:		
Due to State of Alaska	$ 1,202	2,190
Accounts payable	84	54
Return of capital payable (note 9)	-	1,200
Payables from restricted assets:		
Due to State of Alaska	-	43
Due to U.S. Dept. of Education (note 8)	415	629
Accounts payable	10	20
Return of capital payable (note 9)	601	723
Interest payable	12	12
Bonds payable (note 6)	20,943	25,268
Total current liabilities	23,267	30,139
Noncurrent - payable from restricted assets:		
Yield restriction payable (notes 2 and 7)	592	164
Bonds payable, net (note 6)	52,004	72,722
Total noncurrent liabilities	52,596	72,886
Total liabilities	75,863	103,025
Net Position:		
Unrestricted (note 2)	200,142	201,017
Restricted	23,586	22,128
Total net position	223,728	223,145
Total liabilities and net position	$ 299,591	326,170

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Unaudited Statements of Revenue, Expense, and Changes in Net Position

Six Months ended December 31, 2017 and 2016

(in thousands)

	2017	2016
Operating Revenue:		
Interest - loans, net (note 2)	$ 7,832	8,335
Provision (note 5)	(735)	(1,765)
Investment income, net (note 2)	361	(278)
Total operating revenue	7,458	6,292
Operating expenses:		
Interest	693	552
Administration	5,971	5,879
Total operating expenses	6,664	6,431
Operating income (loss)	794	(139)
Nonoperating revenue - other	113	109
Income (loss) before return of capital	907	(30)
Return of Capital (note 9)	-	(1,200)
Change in net position	907	(1,230)
Total net position - beginning	222,821	224,375
Total net position - ending	$ 223,728	223,145

See accompanying Notes to Financial Statements.

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Unaudited Statements of Cash Flows

Six Months ended December 31, 2017 and 2016

(in thousands)

		2017	2016
Cash flows from operating activities:			
Principal payments received on loans	$	23,967	27,482
Interest received on loans		5,116	5,416
Other receipts		(17)	(21)
Loans originated		(5,819)	(4,552)
Administration		(6,073)	(4,813)
Interest paid on debt		(657)	(506)
Principal paid on debt		(11,449)	(14,272)
Income received on investments		668	371
Investments matured or sold		53,752	115,017
Investments purchased		(58,169)	(124,143)
Net cash provided (used) for operating activities		1,319	(21)
Cash flows from capital activities:			
Other receipts		110	108
Return of capital payments		(1,237)	(18)
Net cash provided (used) by capital activities		(1,127)	90
Net increase in cash		192	69
Cash at beginning of period		757	777
Cash at end of period	$	949	846

See accompanying Notes to Financial Statements.

(continued)

ALASKA STUDENT LOAN CORPORATION
(A Component Unit of the State of Alaska)

Unaudited Statements of Cash Flows

Six Months ended December 31, 2017 and 2016

(in thousands)

	2017	2016
Reconciliation of operating income to net cash used for operating activities:		
Operating income (loss)	$ 794	(139)
Adjustments to reconcile operating income to net cash used for operating activities:		
Provision	735	1,765
Change in assets and liabilities:		
Increase in other assets	(82)	(35)
Increase in interest receivable - investments	(18)	(71)
Increase in net interest receivable - loans	(361)	(347)
Increase in investments	(4,091)	(8,406)
Decrease in net loans receivable	15,925	20,390
Decrease in due to U.S. Dept. of Education	(32)	(38)
Increase (decrease) in net due to State of Alaska	(161)	1,109
Increase (decrease) in accounts payable	23	(23)
Increase in interest payable	2	2
Decrease in bonds payable	(11,415)	(14,228)
Total adjustments	525	118
Net cash provided (used) for operating activities	$ 1,319	(21)

See accompanying Notes to Financial Statements.

(1) Authorizing Legislation and Organization

The Alaska Student Loan Corporation (Corporation), a component unit of the State of Alaska (State), was created in 1987 by an act of the State Legislature (Legislature). The purpose of the Corporation is to provide low-cost education loans to Alaskans pursuing education and training at a postsecondary level and for other qualified individuals attending postsecondary institutions in the State. The Corporation is authorized, with certain limitations, to issue debt necessary to carry out its purpose. The Corporation is governed by a Board of Directors (Board) appointed by the State Governor.

The Corporation contracts with the Alaska Commission on Postsecondary Education (Commission) to service its loan portfolio and to provide staff for the Corporation. The Commission, a part of the State's general government, is responsible for staff costs; therefore, the Corporation has no pension disclosure.

(2) Summary of Significant Accounting Policies

(a) *Fund Accounting*

The financial activities of the Corporation, which are restricted by the Corporation's various debt instruments, are recorded in various funds as necessitated by sound fiscal management. The funds are combined for financial statement purposes and there are no significant interfund transactions. The Corporation is considered an enterprise type proprietary fund for financial reporting purposes with revenues recognized when earned and expenses when incurred.

(b) *Fiscal Year*

The Corporation's fiscal year begins July 1 and ends June 30, consistent with the State's fiscal year.

(c) *Operating Revenue and Expense*

The Corporation was created with the authority to issue debt in order to finance education loans to qualified borrowers. Operating revenue is derived from interest on education loans and earnings on investments. Operating revenue is offset by the loan and interest related provision. The cost of financing and servicing education loans is considered operating activity.

(d) *Management Estimates*

To prepare financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect reported amounts. Actual amounts could differ from estimates. The significant accounting and reporting estimates applied in the preparation of the accompanying financial statements are discussed below.

(2) Summary of Significant Accounting Policies (cont.)

(e) *Loans*

Loans represent education loans which include Supplemental Education, Alternative Consolidation, Refinanced (REFI), Teacher Education (TEL), Family Education (FEL), (collectively referred to as State loans), federally guaranteed Stafford (subsidized and unsubsidized), PLUS, and Consolidation (subsidized and unsubsidized) loans (collectively referred to as Federal loans). Loan terms vary depending on year of origination and type.

(f) *Interest on Loans*

Interest on loans is accrued when earned at fixed and variable rates ranging from 2.63% to 9.00%.

For federally guaranteed subsidized loans, interest from the disbursement date until six months after the borrower withdraws from school (plus any authorized deferment and eligible income-based repayment periods) is paid by the U.S. Department of Education (Department) under the Federal Family Education Loan Program (FFELP). The borrower is responsible for interest accruing subsequent to that date.

For federally guaranteed non-subsidized loans and for all State loans (other than TEL) awarded after June 30, 2002, interest accruing from the disbursement date is the responsibility of the borrower. For TELs awarded after June 30, 2002, interest accruing from the date the borrower ceases to be enrolled in school is the responsibility of the borrower.

State loans (other than FEL) awarded prior to July 1, 2002, are non-interest bearing while the borrower is completing eligible studies. State loans (other than FEL) awarded prior to July 1, 1996, are non-interest bearing during approved periods of deferment. State loans awarded prior to July 1, 1987, are also non-interest bearing during a one-year grace period following completion of studies and a six-month grace period following an approved deferment. For FELs awarded prior to July 1, 2002, interest accruing from the disbursement date is the responsibility of the borrower.

Non-interest bearing loans were approximately \$607 and \$981 at December 31, 2017 and 2016, respectively.

The cost of borrower benefits awarded to eligible borrowers is recorded as a reduction in interest on loans. Borrower benefit offerings are approved by the Board annually and may vary from year to year.

The change in the yield restriction payable is recorded as an adjustment to interest on loans.

(2) Summary of Significant Accounting Policies (cont.)

(g) *Allowances and Provision*

The allowances represent management's estimate, based on experience, of loans, and accrued interest on loans that will ultimately be uncollectible or forgiven. The Corporation writes off State loans upon death, total disability, or when payment activity is no longer anticipated. The Corporation also writes off State loans legally discharged in bankruptcy proceedings and the portion of Federal loan balances not guaranteed and deemed uncollectible. Accrued unpaid interest is written off when the related loan is written off. A borrower of a TEL can obtain up to 100% forgiveness of loan principal and interest if the borrower teaches in rural Alaska for periods specified by the Program.

The provision is the annual change in the allowances.

(h) *Note Discount*

The Corporation uses the effective method of amortization to amortize the note discount over the life of the note. The effective method matches amortization with interest expense, maintaining a constant effective rate of interest over the life of the note.

(i) *Income Taxes*

The Corporation, as a governmental instrumentality, is exempt from federal and State income taxes.

(j) *Investments and Investment Income*

The Corporation invests in the State's internally managed General Fund and Other Non-segregated Investments Pool (GeFONSI). GeFONSI consists of investments in the State's internally managed Short-term, Short-term Liquidity and Intermediate-term Fixed Income Pools. Additional information with regard to the GeFONSI can be found in Treasury's *Invested Assets Under the Investment Authority of the Commissioner of Revenue's Independent Auditors' Report* (GeFONSI Report) at treasury.dor.alaska.gov/Investments/Annual-Investment-Reports.aspx.

The Corporation also invests in specific securities and money market funds. Money market funds maintain a share price of $1 and are reported at amortized cost. The Corporation's shares in money market funds fluctuate daily with contributions and withdrawals. Investments in specific securities are reported at fair value.

The change in the arbitrage rebate receivable is recorded as an adjustment to investment income.

(2) Summary of Significant Accounting Policies (cont.)

(k) *Due to State of Alaska*

Amounts due to the State of Alaska represents the net difference between amounts held by the Corporation on behalf of the State, amounts paid by the Corporation on behalf of the Commission and amounts paid by the Commission on behalf of the Corporation.

(l) *Unrestricted Net Position*

Unrestricted net position represents net assets not pledged as collateral to secure payment of debt.

(3) Cash and Investments

(a) *Cash*

(1) Cash summarized by classification at December 31 follows:

	2017	2016
Current, unrestricted	$ 774	766
Current, restricted	-	-
Noncurrent, restricted	175	80
Total	$ 949	846

(2) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, deposits may not be returned. The Corporation has not established a custodial credit risk policy for its deposits.

At December 31, 2017, the Corporation had $25 cash exposed to custodial credit risk.

(b) *Investments*

(1) The fair value at December 31, of the Corporation's investments, by classification, follows:

	2017	2016
Current:		
Restricted	$ 4,911	6,014
Noncurrent:		
Unrestricted	75,111	64,411
Total	$ 80,022	70,425

(3) Cash and Investments (cont.)

(b) *Investments*

(2) Investment Policies

The Corporation utilizes different investment strategies depending upon the nature and intended use of the assets being invested.

Restricted funds are invested according to the terms outlined in trust documents which generally mandate the purchase of relatively short-term, high quality fixed income securities. Trust documents outlining permitted investments are accessible at acpe.alaska.gov/financial_statements_Trust_documents. Restricted funds are invested in money market funds.

Unrestricted funds may be invested in the various fixed-income pools managed by Treasury. Investments in Treasury’s fixed-income investment pools are made in accordance with the State's General Investment Policy. These investments represent an ownership share of the pool’s securities rather than ownership of specific securities themselves. A complete description of the investment policy for each of the State’s fixed-income investment pools is at treasury.dor.alaska.gov/investments.

Unrestricted funds not managed by Treasury are managed by an external investment manager in compliance with the Corporation’s investment policy which allows investments in:

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated “AAA/Aaa” and issued by federal agencies which do not represent the full faith and credit of the U.S.
- Bonds, notes or other evidences of indebtedness rated “A” or better and issued by domestic municipalities.
- Corporate bonds and convertible securities rated “A” or better.

(3) Cash and Investments (cont.)

(b) Investments

(2) Investment Policies

- Collateralized mortgage obligations originated from a federal agency.

The highest rating of a nationally recognized rating agency is the rating used to determine compliance with this policy.

(3) Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Corporation mitigates its credit risk by limiting investments to those permitted in the investment policy and diversifying the investment portfolio.

The fair value of the Corporation's investments by type and credit quality, using a nationally recognized statistical rating organization without modifiers, at December 31 are shown below:

Investment Type	Ratings	2017	2016
Mortgage-backed securities (agency)	AAA	338	348
Money market funds	AAA	17,657	11,741
Corporate bonds	AAA	2,127	2,011
Corporate bonds	AA	18,107	19,610
Corporate bonds	A	32,745	30,045
GeFONSI	Not rated	9,048	6,670
Total		$ 80,022	70,425

The Corporation's ownership share of the GeFONSI was 0.27% and 0.20% at December 31, 2017 and 2016, respectively.

Credit risk information relative to the Corporation's investment in the GeFONSI can be found in the GeFONSI Report.

(3) Cash and Investments (cont.)

(b) Investments

(4) Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of investments in a single investment provider.

At December 31, 2017, the Corporation had investment balances greater than five percent of the Corporation's total investments with the following investment provider:

	Fair Value	Percent of Total Investments
Fidelity Institutional Money Market Fund	$ 15,840	20

Concentration risk information relative to the Corporation's investment in the GeFONSI can be found in the GeFONSI Report.

(5) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation mitigates interest rate risk by structuring maturities to meet cash requirements.

Duration

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a portfolio is the average fair value weighted duration of each security in the portfolio taking into account all related cash flows.

The Corporation's investment manager uses industry-standard analytical software developed by CMS Bond Edge to calculate duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, call options and other variable cash flows for purposes of the duration calculation.

(3) Cash and Investments (cont.)

(b) Investments

(5) Interest Rate Risk

At December 31, 2017, the weighted average modified duration of investments, other than investments in money market funds and the GeFONSI, follows:

Mortgage-backed securities (agency)	1.20
Corporate bonds	1.63
Portfolio modified duration	1.62

The Corporation has not established an interest rate risk policy for such investments.

Interest rate risk information relative to the Corporation's investment in the GeFONSI can be found in the GeFONSI Report.

(6) Fair Value Measurements

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. The Corporation's corporate bonds and mortgage-backed agencies are valued using level 2 inputs. Market and industry inputs include, benchmark yields, yield to maturity data, prepayment speeds, corporate action adjustments, reported trade data, etc.

Fair value measurements relative to investments in the GeFONSI can be found in the GeFONSI Report.

(c) Other

Unrestricted cash and unrestricted investments specifically designated for financing education loans include $4,000 and $2,791 at December 31, 2017 and 2016, respectively.

(4) Loans Receivable

Loans were financed by the issuance of debt and recycled loan payments.

(a) The loan portfolio summarized by classification at December 31 follows:

		2017	2016
State loans:			
Current, unrestricted	$	25,176	26,332
Noncurrent:			
Unrestricted		140,552	154,625
Restricted		41,062	49,698
Total, gross State loans		206,790	230,655
Federal loans:			
Noncurrent:			
Restricted		64,745	79,021
Total, gross loans		271,535	309,676
Allowance for doubtful loans		60,878	61,508
Allowance for principal forgiveness		368	1,932
Total allowance		61,246	63,440
Total, net loans	$	210,289	246,236
Current, unrestricted	$	25,176	26,332
Noncurrent:			
Unrestricted		95,076	107,751
Restricted		90,037	112,153
Total, net loans	$	210,289	246,236

(4) Loans receivable (cont.)

(b) The loan portfolio summarized by program at December 31 follows:

	2017	2016
State Loans		
Supplemental Education	$ 169,052	191,960
Consolidation	22,543	28,513
Refinanced	9,051	3,580
Teacher Education	4,448	5,105
Family Education	1,696	1,497
Total State Loans	206,790	230,655
Federal Family Education Loans		
Stafford	52,909	65,203
Consolidation	9,739	11,227
PLUS	2,097	2,591
Total Federal Loans	64,745	79,021
Total	$ 271,535	309,676

(c) The loan portfolio summarized by status at December 31 follows:

	2017		2016	
	State	Federal	State	Federal
Enrollment	$ 10,724	679	9,795	1,130
Grace	1,714	46	1,865	86
Repayment	178,210	50,078	197,591	60,381
Deferment	15,339	7,225	20,962	9,559
Forbearance	803	6,717	442	7,865
Total	$ 206,790	64,745	230,655	79,021

(d) Loans awarded not disbursed at December 31 follows:

	2017	2016
State Loans		
Supplemental Education	$ 3,181	2,126
Refinanced	407	436
Teacher Education	8	21
Family Education	404	208
Total State Loans	$ 4,000	2,791

(5) Allowances and Provision

A summary of activity in the allowances at December 31 follows:

	2017	2016
Balance at beginning of period	$ 79,652	79,659
Provision	735	1,765
Balances charged off	(640)	(857)
Balance at end of period	$ 79,747	80,567

	2017	2016
Allowance for:		
doubtful loans	$ 60,878	61,508
principal forgiveness	368	1,932
doubtful interest	18,485	16,469
interest forgiveness	16	658
Total	$ 79,747	80,567

(6) Bonds Payable

(a) Bonds payable at December 31 follows:

	Type	Original Amount	Amount Outstanding 2017	Amount Outstanding 2016
2012B Trust Indenture, Education Loan Revenue, Refunding Bonds, Senior Series 2012B-1, due 2043	Variable	78,435	10,935	20,935
2013A Trust Indenture, Education Loan Revenue, Refunding Note, Series 2013A, due 2031	Variable	144,730	62,244	77,358
Total Bonds/Note Payable		$ 223,165	73,179	98,293
Unamortized discount			(232)	(303)
Net Bonds/Note Payable			$ 72,947	97,990
Current			20,943	25,268
Noncurrent			52,004	72,722
Total			$ 72,947	97,990

(6) Bonds Payable (cont.)

(b) The Series 2012B bonds bear interest at a weekly rate, determined by the remarketing agent. The maximum rate applicable to the bonds is 12% per annum. The rate at December 31, 2017 and 2016 was 1.75% and 0.75%, respectively.

The 2013 Refunding Note bears interest at a rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 50 basis points. There is no maximum rate. The rate at December 31, 2017 and 2016 was 2.05% and 1.26%, respectively.

(c) The minimum payments projected subsequent to December 31, 2017, are as follows:

Period Ending December 31	Principal	Interest	Total
2018	$ 20,943	1,302	22,245
2019	20,188	888	21,076
2020	15,569	512	16,081
2021	15,891	189	16,080
2022	588	1	589
Total	$ 73,179	2,892	76,071

(d) The 2013 Refunding note was issued at a discount which is being amortized using the effective method. The effective rate is 60 basis points over LIBOR.

(e) Each Master Indenture represents a limited obligation trust which secures payment for the outstanding debt issued therein. The debt is payable from assets pledged to the respective indenture including principal and interest payments on pledged loans. The debt does not constitute a general obligation of the Corporation or of the State. The debt is private activity revenue debt. Debt service payments are due as follows:

Master Indenture	Principal	Interest	Bond Type
2012B	December 1, 2043	June 1 and December 1	Tax-exempt
2013	Monthly	Monthly	Taxable

The indentures contain covenants relative to restrictions on additional indebtedness.

The 2012B revenue bonds have liquidity support by means of an irrevocable direct-pay Letter of Credit issued by State Street Bank and Trust Company that expires on July 20, 2020. In addition the State of Alaska, Department of Revenue, Treasury Division entered into a Standby Bond Purchase Agreement with State Street Bank and Trust Company thereby agreeing to purchase 2012B revenue bonds under certain conditions. The Standby Bond Purchase Agreement expires August 10, 2020. The Corporation entered into a Reimbursement Agreement with the State of Alaska, Department of Revenue, Treasury Division thereby agreeing to reimburse them for the purchase of 2012B Revenue Bonds pursuant to the Standby Bond Purchase Agreement. The Reimbursement Agreement expires August 10, 2020.

(7) Yield Restriction and Arbitrage Rebate

Education loans financed with proceeds of tax-exempt bonds issued by the Corporation are subject to interest rate yield restrictions of no more than 2% over the bond yield. Earnings on non-loan investments pledged to bond indentures are subject to rebate provisions which restrict earnings to the related bond yield. These restrictions are in effect over the life of the bonds. Loan and investment yields are calculated and analyzed annually. These analyses are used to determine both compliance with Internal Revenue Service (IRS) provisions and the amount of arbitrage rebate and yield restriction receivable/payable amounts, if any. The amount recorded as yield restriction payable represents the amount due to the IRS for earnings in excess of allowable yields. The amount recorded as arbitrage rebate receivable represents amounts paid to the IRS in past years that is refundable due to cumulative investment earnings no longer being in excess of those allowable.

(8) Federal Family Education Loan Program

Northwest Education Loan Association (NELA), an affiliate of Great Lakes Higher Education Corporation, serves as the "eligible" guarantor for the Corporation’s FFELP portfolio.

As a holder of federal loans, the Corporation receives claim, special allowance and interest subsidy payments and pays excess interest and rebate fees on federally guaranteed loans as specified in the Higher Education Act (HEA).

Claim payments are received from the guarantor when a borrower dies, becomes totally and permanently disabled, or defaults on a Federal loan. The Corporation is eligible for these payments provided they adhere to servicing requirements outlined in the HEA. Failure to fulfill the requirements may result in an interest penalty or loss of guarantee. In the case of a default claim, unpaid principal and interest are guaranteed at 98% if the loan was first originated prior to July 1, 2006, and 97% if the loan was first originated after June 30, 2006. Claims as a result of a borrower’s death or becoming totally and permanently disabled are guaranteed at 100%.

Special allowance payment rates are calculated quarterly, by the Department, based on the quarter’s daily average one-month LIBOR, plus a predetermined factor that varies according to loan type, disbursement date, loan status, and not-for-profit eligibility of the lender less the loan’s applicable interest rate. When the calculated rate is positive, special allowance payments are received from the Department; when the calculated rate is negative, the Corporation pays excess interest to the Department on loans first disbursed after April 1, 2006.

Interest subsidies are received quarterly from the Department on behalf of a qualified subsidized Stafford or subsidized Consolidation loan borrower during enrollment, grace, deferment and eligible income-based repayment periods.

A rebate fee, equal to 0.09% of the unpaid principal and interest on consolidation loans, is paid monthly to the Department.

(9) Commitments and Contingencies

(a) Operations

The Corporation will fund approximately $6,832 and $41 of the Commission's fiscal year 2018 and 2017 operating budgets, respectively, for loan servicing and staff support. The Corporation's and the Commission's budgets are subject to review and approval from both the executive and legislative branches of the State. The Commission's costs funded by the Corporation are based on expenditures incurred by the Commission.

(b) Return of Capital

State statutes indicate that the Board may elect to pay the State a return of contributed capital or dividend based on net income. If the Board elects to make such a payment, the amount may not be less than 10%, or greater than 35%, of the Corporation's income when it equals or exceeds $2,000 for the Base Fiscal Year. The Base Fiscal Year is defined as the fiscal year ending two years before the end of the fiscal year in which the payment is made.

On November 30, 2016, the Board approved a $1,200 Return of Capital payment to the State based on income (referred to as change in net position on the Statements of Revenue, Expense and Changes in Net Position) in fiscal year 2016. Income in fiscal year 2017 did not exceed $2,000; therefore, no capital will be returned to the State in fiscal year 2019.

As an additional means of returning capital, the Corporation issued bonds to finance State capital projects. No bonds have been issued since 2005 for this purpose. The Corporation reimburses the State for expenditures related to projects funded with Corporation capital project bond proceeds. Restricted investments include amounts specifically designated for financing State capital projects totaling $601 and $723 at December 31, 2017 and 2016, respectively.

(c) State Permanent Fund Dividend Garnishment

The Alaska Permanent Fund (Permanent Fund), established in the State Constitution in 1976, is held and managed by the State. The State deposits a percentage of oil and gas royalties into the Permanent Fund. By statute, the State pays a portion of the earnings of the Permanent Fund annually to individuals who apply and meet certain residency requirements, provided that sufficient funds are available for payment. Permanent Fund Dividend (PFD) payments could be eliminated or reduced by an amendment to State statutes. The Commission may garnish a borrower's PFD payment, if any, to satisfy the balance of a defaulted loan pursuant to State statutes. The Commission has garnishment priority over all other executors except State child support enforcement and any court ordered restitution. There is no assurance that any particular borrower will apply or qualify for a PFD payment.

PFD garnishments were approximately $1,753 and $1,794 for the six-month period ended December 31, 2017 and 2016, respectively.

(9) Commitments and Contingencies (cont.)

(d) Legislation

The Corporation's State education loan programs have been the subject of legislative action by the State legislature. The laws governing the programs have been amended from time to time and will continue to be the subject of legislative proposals calling for further amendment. The effect, if any, on the Corporation's State programs cannot be determined.

(e) Non-Investment Interest Rate Risk

The Corporation is subject to interest rate risk relating to its variable rate debt and rate on pledged loans. The 2012B bonds are subject to an interest rate cap of 12% while the loans pledged to the 2012B bonds are fixed rate loans ranging from 4.75% to 9.00% or variable rate loans subject to an interest rate cap of 8.25%. The Corporation has various strategies available to manage the risk that the 2012 bond rate may rise above the related pledged loan rate. The 2013 note rate is based on one-month LIBOR while the rate on loans pledged to the 2013 note are determined quarterly based on the quarterly daily average one-month LIBOR.